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agro-chemical and food company limited

ANNUAL REPORT & ACCOUNTS

1996/97

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AGRO-CHEMICAL AND FOOD COMPANY LIMITED

REPORT AND ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 1997

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AGRO-CHEMICAL AND FOOD COMPANY LIMITED

CHAIRMAN'S REPORT FOR THE YEAR TO 30TH JUNE 1997



Preamble:

In my report for the year ending 30th June 1996, I emphasized the need for sustained cost control measures aimed at maximizing operational efficiency and increased productivity in all areas as our main goal towards satisfactory results in future. This was in view of the difficult economic path that we went through that year.

One year later, I wish to report that the company underwent one of the most difficult periods caused by a multiplicity of factors, the major one being prolonged electrical power rationing caused by the long dry season experienced in the country. This together with lack of adequate supply of molasses in the first quarter of the financial year adversely affected our production targets. On the market front, our exports suffered a steep decline in value as the Kenya Shilling became stronger against the major world currencies thus pushing our export realisation down by about 20%. Due to the prolonged drought which affected agricultural production and the power rationing that affected manufacturing output the national economic growth fell short of the targeted 5%. This scenario created a negative multiplier effect in all economic activities and ACFC was not spared.

Summarised Operating Results

In spite of the difficulties enumerated above the company was able to achieve some encouraging results as tabulated below, through concerted efforts in production, molasses procurement and cost controls.

	Budget	Actual	% Budget	Budget	Actual
Production:					
Alcohol(000 Lts)	18,000	15,919	88%	16,000	16,048
Yeast (Tonnes)	1,200	1,044	87%	1,100	1,107
Sales:					
Alcohol (000 Lts)	18,000	15,106	84%	16,000	16,678
Yeast (Tonnes)	1,200	1,035	86%	1,100	1,133
Gross Revenue	Kshs. 599 m	512.2 m	85%	Kshs. 534.3 m	
Operating Profit before interest	Kshs. 85.5 m	52.3 m	61%	Kshs. 63.6 m	

Out of 15.1 million litres of alcohol sold, approximately 8.4 million litres were exported to Europe and earned Kshs.179 million in foreign exchange during 1996/97, bringing the cumulative export earnings to over Kshs.1040 million. Local sales of spirits and yeast continued to grow inspite of stiff competition from liberalized importation of these items.

Financial Results

Turnover dropped to Shs.478 million from Kshs.507 million in the previous year. The operating profit resulting before loan interest was Kshs.52.3 million compared to Shs. 63.6 million in 1995/96 and was only 61% of budget. However due to exchange gain arising from translation of our foreign currency loans, the company for the first time ever, registered an overall net profit of Shs.81.4 million compared to an overall loss of Shs.271 million in the previous year. As reported in the past, our company continues to suffer from the heavy burden of loans which are becoming difficult to service. The GOK is being approached to look into the best way of assisting us on this problem.

Future Prospects

As mentioned in my report for 1995/96, it is the cherished desire of the Board and the Management to maximize the plant's operational efficiency and to increase productivity in order to survive during these difficult times of stiff competition, unpredictable currency drifts and a liberalized market environment. To achieve this, it has become necessary to revamp and modernize the plant which is now 16 years old and cannot sustain full capacity operations without straining available resources. Hence several plans and proposals are being studied on how best this can be achieved within the constraints of scarce financial resources available. The Effluent Treatment Plant has been recently commissioned and should achieve substantial energy cost savings once in full operation in the near future. The perennial problem of molasses availability is now easing out, thanks to the joint co-operation and efforts of all concerned parties. With the installation of a standby 1000 KVA D.G. set, the problem of power interruptions has been sorted out.

With these steps and the efforts of all concerned, we are confident of achieving better results now and in future.

Acknowledgements

I take pride in the selfless efforts and dedication of all our employees especially during the difficult times the company underwent through in 1996/97. Their sacrifices culminated in the modest achievements realized in both production and profits. For this, on behalf of the Board, I wish to convey our sincere gratitude to all employees and the management. I also wish to thank all my colleagues on the Board for their tireless devotion and valued guidance which enabled the company to steer through her tribulations during the year. I should not forget to thank our Parent Ministry of

Agriculture, Livestock Development and Marketing, the Treasury, Kenya Sugar Authority, all sugar companies, our valued customers and vendors for all the support and co-operation given during the past year. I earnestly urge them to extend similar co-operation in the future as well.

DR. W.K. KILELE, EBS
CHAIRMAN

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

DIRECTORS' REPORT

The Directors present their report and the accounts for the year ended 30th June 1997.

Principal Activities:

The Company produces power alcohol, baker's yeast, rectified and methylated spirit and other related products from sugar cane molasses for both local and export market.

Results:

During the year the Company produced 15.9 million litres of alcohol and spirits and 1044 tons of yeast and realized a turnover of Kshs.478 million (1995/96:507 million). The operating loss before exchange gains/(losses) was Kshs.166,250,438 which includes interest on foreign loans of Kshs.218 million (1995/96: 225 million). The profit for the year carried forward is Kshs.81,350,758. This profit is after considering an exchange gain amounting to Kshs.247,601,196 arising from the translation of the foreign currency loans at the exchange rate ruling at the balance sheet date.

Dividends

The Directors do not recommend the payment of a dividend in view of the cumulative loss position.

Auditors:

The Auditor General (Corporations) will continue in office in accordance with section 29 (2) of the Exchequer and Audit Act (Cap. 412).

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

Directors as at 30th June 1997

1. Dr. W.K. Kilele (Chairman)	-	A.D.C
2. Dr. B. Muruli(Alternate Mrs. Janet Okanga)	-	"
3. Mr. M.N. Mehta(Alternate Mr. Jay Mehta)	-	I.I.C. Limited
4. Mr. S.C. Sharma	-	"
5. Mr. G.K. Kimweli	-	I.C.D.C.
6. Mr. S.K. Maina	-	"
7. Dr. Friedrich Steinleitner(Alternate Mr. M..J.A. Emukule)	-	Schoeller Blackmann Austria.

Managing Agent:

Mehta Group Limited

Resident Director & Chief Executive

Mr. O.P. Narang

Advocates

Kasamani & Company Advocates
P O Box 827
KISUMU

Bankers

National Bank of Kenya Limited
Barclays Bank of Kenya Limited

Chief Officers

Dy. Chief Executive (Finance)	-	Mr. J.Z. Abuta
Dy. Chief Executive (Works)	-	Mr. A.O. Gumo
Dy. Chief Executive (Administration & Corporate Planning)	-	Mr. F.J. Oketch

By order of the Board



J.Z. ABUTA

COMPANY SECRETARY

REPORT OF THE AUDITOR-GENERAL (CORPORATIONS) ON THE ACCOUNTS OF THE AGRO-CHEMICAL AND FOOD COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 1997.

I have examined the accounts of Agro-Chemical & Food Company Limited for the year ended 30 June 1997 in accordance with Section 29 (2) of the Exchequer and Audit Act (Cap 412). I have obtained all the information and explanations that I required for the purpose of the audit. Proper books of account have been kept by the Company and the accounts are in agreement therewith and comply with the Companies Act (Cap 486).

Subject to the reservations set out herebelow, in my opinion, the accounts when read together with the notes thereon, present a true and fair view of the Company's financial state of affairs as at 30 June 1997 and of its profit and cash flow statement for the year then ended.

1. FINANCIAL POSITION.

The Company results improved slightly during the year under review as a net profit of Kshs. 81,350,758 (1995/96 - loss of Kshs. 271,349,762) was realised bringing the accumulated losses to Kshs. 2,853,314,718 as at 30 June 1997 (1995/96 - Kshs. 2,934,665,476). However, the net profit was not as a result of improved company performance but was brought about by foreign exchange gains of Kshs. 247,601,196. The Company was unable to meet its loan obligations as they fell due. The working capital is also negative at Kshs. 458,187,608 (1995/96 - Kshs. 302,593,156). The Company has attributed this poor financial situation to increased operational costs and relatively inadequate prices for its finished products. Despite the precarious financial position, the Company has failed to review adequately its prices for yeast. The accounts have therefore been drawn on a going concern basis on the assumption that the Company will continue to enjoy support from the Government, lenders and its creditors.

2. FIXED ASSETS - WORK IN PROGRESS.

In my report for 1995/96 reference was made to the incomplete Effluent Treatment Plant Project whose contract sum was originally Kshs. 52,142,492 in 1993 and had cost Kshs. 112,815,055 as at 30 June 1996. My review during the year under audit indicated that although the project was still incomplete, a further expenditure of K.shs. 8,318,146 was incurred during the year. The additional expenditure during the year brings the total additional cost of the project as at 30 June 1997 to Kshs. 68,988,709 which is 132% over and above the original contract cost. The Company has not, satisfactorily, explained why the project had to cost 132% more than what was originally planned.



W.K. KEMEI.
AUDITOR GENERAL (CORPORATIONS).

16 February 1998.

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH JUNE 1997**

	1997 SHS	1,996 SHS
TURNOVER	477,904,374 =====	507,404,177 =====
PROFIT(LOSS) BEFORE T/ TAXATION**	81,350,758 - =====	(271,349,762) - =====
PROFIT(LC SS) FOR THE YEAR	81,350,758 =====	(271,349,762) =====

**See Note 3



AGRO-CHEMICAL AND FOOD COMPANY LIMITED

BALANCE SHEET 30TH JUNE 1997

	NOTES	1997 SHS	1996 SHS
FIXED ASSETS	4	1,553,638,414	1,560,337,735
INVESTMENT (AT COST)	5	6,000	6,000
CURRENT ASSETS			
Stock and work in progress	6	93,584,275	76,448,959
Debtors	7	90,985,031	70,134,879
Short-term deposits	8	112,636,993	129,021,055
Bank and Cash Balances		225,671	15,296,615
		297,431,970	290,901,508
CURRENT LIABILITIES			
Creditors	9	730,548,289	554,903,676
Bank Overdraft (Secured)		25,071,289	38,590,988
		755,619,578	593,494,664
NET CURRENT ASSETS/(LIABILITIES)		(458,187,608)	(302,593,156)
		1,095,456,806	1,257,750,579
Financed by:			
Share Capital	11	60,000,000	60,000,000
Reserves	12	(1,315,141,354)	(1,395,761,173)
Shareholders' Fund		(1,255,141,354)	(1,335,761,173)
Loans	10	2,350,598,160	2,593,511,752
		1,095,456,806	1,257,750,579

The accounts on pages 7 to 15 were approved by the Board of Directors on

and were signed on its behalf by:

 }
 } Directors

AGRO-CHEMICAL AND FOOD COMPANY LIMITED**CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE 1997**

	SHS.	SHS.
Net Cash inflow from operating Activities:		
(Loss) Net Profit before taxation	81,350,758	(271,349,742)
Adjustment for items not involving the movements of funds:		
Depreciation	67,879,399	65,634,759
Prior year adjustments to reserves	730,939	24,003
Exchange gains/loss on foreign loans	(207,595,424)	97,492,452
Profit on sale of fixed assets	(3,574,752)	(85,843)
Net Operating profit before working capital changes:	(61,209,080)	(108,284,371)
Changes in:		
-Stocks	(17,135,316)	13,874,431
-Debtors	(20,850,152)	(1,179,198)
-Creditors	175,644,613	205,813,222
(a) Net Cash flow from operating profit	76,450,065	110,224,084
Cash flow from investing activities		
Purchase of assets	(55,733,886)	(30,411,449)
Proceeds from sales of fixed assets	1,234,500	11,200
(b) Net cash flow from investing activities	(54,499,386)	(30,400,249)
(c) Cash flow from financing activities		
Repayment of loans	(39,885,986)	(97,147,238)
Net(decrease)increase in cash and cash and cash equivalents (a+b+c)	(17,935,307)	(17,323,403)
Cash and cash equivalents at the beginning of the year	105,726,682	123,050,085
Cash and Cash equivalents at the end of the year	87,791,375	105,726,682

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

1. ACCOUNTING POLICIES

a) BASIS OF ACCOUNTING

The Company prepares its accounts on the historical cost basis of accounting, modified to include the revaluation of certain fixed assets.

b) TURNOVER

Turnover represents the value of alcohol and yeast invoiced to customers net of various taxes and levies.

c) DEPRECIATION

Depreciation is calculated to write off the cost or valuation of fixed assets in equal annual instalments at the following rates:

Long leasehold land	1.05%
Building	2.5%
Plant and Machinery	4.0%
Motor Vehicles	25%
Furniture and fixtures	15% for revalued assets and 10% for additions thereafter.

Assets are depreciated in the year of acquisition and no provision for depreciation is provided for in the year of disposal. Fixed assets were revalued in 1993 other than furniture and fixtures which were revalued last in 1986.

d) FOREIGN CURRENCIES

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange at balance sheet date. Transactions during the year are translated at the rate of transaction. Gains or losses on exchange arising from accrued interest and foreign loans are included in the profit and loss account.

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

(e) STOCKS:

Stocks and work in progress are valued at the lower of the cost and net realisable value. Cost comprises purchase cost together with labour, transport and relevant production overheads, where applicable.

2. PROFIT/(LOSS) BEFORE TAXATION

	1997	1996
	SHS.	SHS.
Loss before taxation is arrived at after charging:		
Depreciation	67,879,399	65,634,759
Auditors' remuneration & Exp.	250,000	250,000
Directors' " " " "	324,890	1,238,560
Interest payable/(received) On:		
Loans	218,543,533	224,498,271
Bank draft	1,815,396	4,949,075
Deposits	26,844,140	22,940,615
Others	(111,020)	(85,822)
Gains(loss) on exchange	<u>247,601,146</u>	<u>(110,287,043)</u>

3. TAXATION

Current tax rate is 35% on adjusted profit. There is no tax liability in view of losses available for carry forward of approximately shs. 1385 million (1996: 1271 million).

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

4. FIXED ASSETS

	Land, Housing and Factory KSHS.	Plant and Machinery KSHS.	Work in Progress KSHS.	Vehicle, Furniture and Fixtures KSHS.	Total KSHS.
COST VALUATION					
At 30th June 1996	252,680,499	1,353,002,666	123,320,160	31,171,775	1,760,175,100
Additions	-	14,044,866	40,061,461	6,639,251	60,745,578
Disposals	-	-	-	(2,048,012)	(2,048,012)
Transfers	3,324,971	24,873,380	(28,253,789)	55,438	-
At 30th June 1997	256,005,470	1,391,920,912	135,127,832	35,818,452	1,818,872,666
DEPRECIATION					
At 30th June 1996	18,352,792	162,060,159	-	19,424,414	199,837,365
Estimated in respect of disposals	-	-	-	(2,482,512)	(2,482,512)
Change for the year July 1996-June 1997	6,177,952	55,665,846	-	6,035,601	67,879,399
At 30th June 1997	24,530,744	217,726,005	-	22,977,503	265,234,252
NET BOOK VALUE					
At 30th June 1997	231,474,726	1,174,194,907	135,127,832	12,840,949	1,553,638,414
At 30th June 1996	234,327,707	1,190,942,507	123,320,160	11,747,361	1,560,937,735

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS CONTINUED

	1997 SHS.	1996 SHS.
5. INVESTMENT		
Cost of 300 shares 20/= each in K.G.G.C.U. Limited	6,000	6,000.
6. STOCK AND WORK IN PROGRESS		
Goods in transit	1,468,537	622,425
Raw Materials and spares	62,814,619	60,728,756
Work in progress	953,397	985,736
Finished Products	28,347,722	14,112,042
	<hr/>	<hr/>
	93,584,275	76,448,959
	=====	=====
7. DEBTORS		
Trade	56,954,813	45,827,003
Less Prov. for doubtful debts	(16,712,295)	(16,712,295)
Pre-payments	6,449,207	7,685,161
Creditors debit balances	1,521,062	4,631,396
Others	42,772,244	28,703,614
	<hr/>	<hr/>
	90,985,031	70,134,879
	=====	=====
8. SHORT TERM DEPOSITS		
National Bank of Kenya Limited		
Fixed Deposit	110,000,000	125,000,000
Interest receivable	2,636,993	4,021,055
	<hr/>	<hr/>
	112,636,993	129,021,055
	=====	=====

NOTES TO ACCOUNTS (CONTD.)

	1997 <u>KSHS</u>	1996 <u>KSHS</u>
9. CREDITORS		
Trade Creditors	44,211,677	5,664,420
Other Creditors*	<u>686,336,612</u>	<u>549,239,256</u>
	<u>730,548,289</u>	<u>554,903,676</u>

*Includes interest accrued on foreign loan of Kshs.600,237,469 (1995/96: Kshs.461,301,185).

10. LOANS**

<u>Lender:</u>	<u>Interest Rates</u>	1997 <u>KSHS</u>	1996 <u>KSHS</u>
Giro-Credit Bank guaranteed by GOK	Variable	342,067,634	461,556,685
GOK ON-LENT	Variable	1,905,515,776	2,006,704,000
Giro-Credit Bank paid by GOK	-	103,014,750	125,251,067

**Foreign loans were restructured as at 31st December 1993 i.e Giro-Credit Bank loan Aust. Sch. 125,374,976.57 repayable semi-annually upto December 1997 and GOK converted to US\$34,960,000= payable in fourteen semi-annual instalments upto 2002. Aus. Sch. 23,174,900.44 i.e Kshs. 103,014,750 in respect of Giro-Credit long term loan was paid ACFC's behalf by GOK in 1995/96.

11. SHARE CAPITAL

Authorised 3,750,000 ordinary Shares of Shs. 20/=	75,000,000	75,000,000
Issued and fully paid 3,000,000 Ordinary shares of Shs.20/=	60,000,000	60,000,000

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTD.)

12. RESERVES

	CAPITAL RESERVE SHS.	REVENUE RESERVE SHS.	TOTAL SHS.
At 30th June 1996	1,540,704,115	(2,936,465,288)	(1,395,761,173)
Prior Year Adjustment (Note 16)	(2,530,751)	1,799,812	(730,939)
Re-state of balance as at 30.6.96	1,538,173,364	(2,934,665,476)	(1,396,492,112)
Loss for the year at 30.6.96	-	81,350,758	81,350,758
	1,538,173,364	(2,853,314,718)	(1,315,141,354)

13. CAPITAL COMMITMENTS

	1997 SHS.	1996 SHS.
Contracted but not provided for	26,655,000	17,021,589
Authorised but not contracted for	68,476,000	80,536,000
	95,131,000	97,557,589

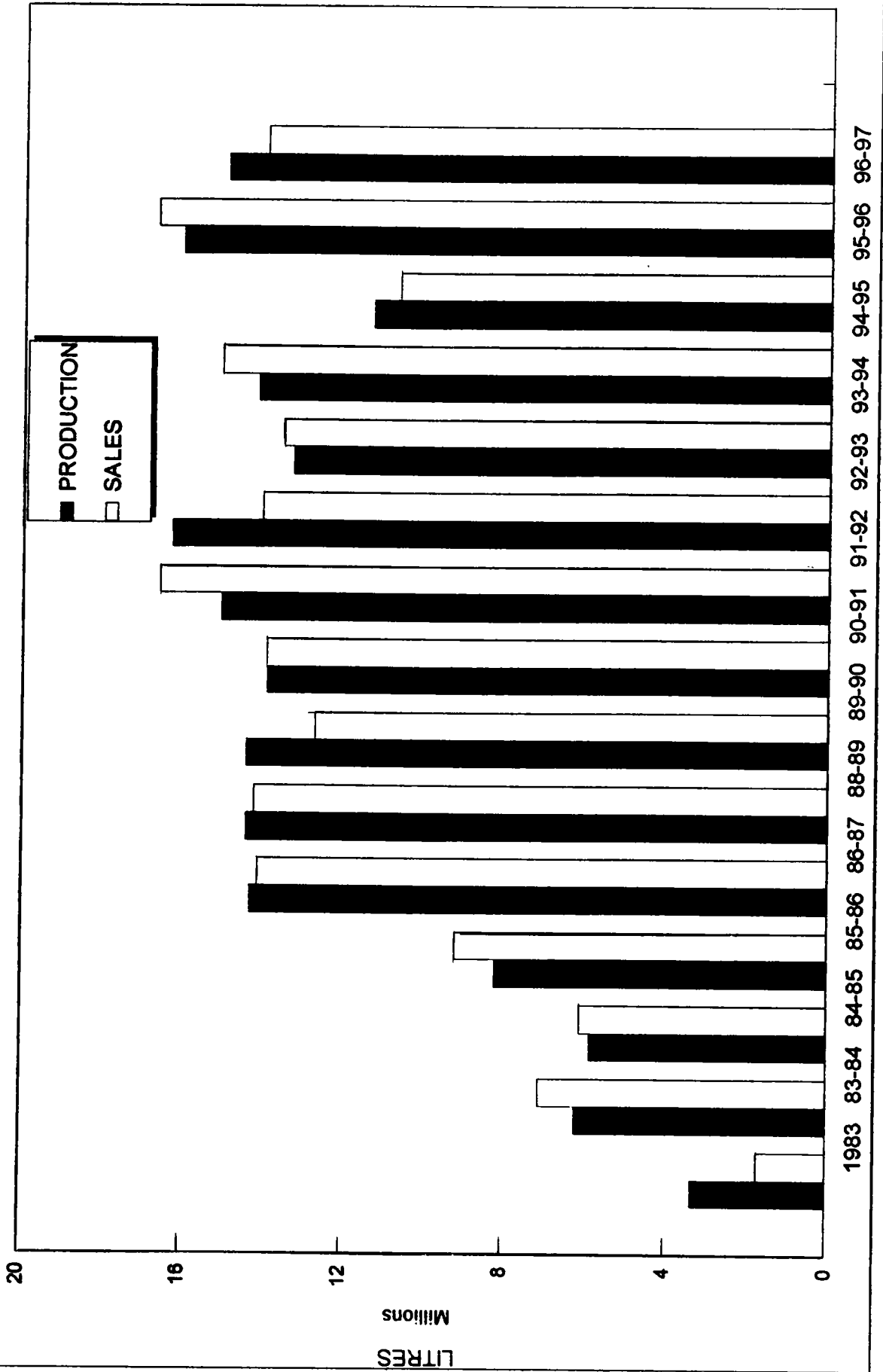
14. CONTIGENT LIABILITY

There was a contingent liability of Kshs.5,025,500(1996 Kshs.693,400) in respect of bank letters of credit issued and outstanding as at 30.6.96.

15. Prior year adjustment of Kshs.(730,939) represents the following:

	KSHS.
i) Loss arising on sale of fixed assets valued in 1996.	(2,530,751)
ii) KBS levy for earlier years paid in this year	(310,000)
iii) Storage charge for earlier year paid in this year	(259,719)
iv) Reversal of expenses accrued in earlier years but so far deemed not payable	2,369,531
	(730,939)

ACFC LIMITED'S PRODUCTION AND SALES OF ALCOHOL



PRODUCTION AND SALES - A. D. Y.

